

Kentucky Agriculture Finance Corporation

Meeting Minutes

October 10, 2003

The Kentucky Agriculture Finance Corporation met at 9:30 am on October 10, 2003 in the Old Capitol Annex in Frankfort, Kentucky.

Members Present:

Ms. Sandy Ross; Mr. Dwight Price, designee for Gordon Duke; Dr. Harold Benson; Ms. Annette Crawford Walters; Mr. Bob D. Proffitt; Mr. Mark Straw, designee for Commissioner Billy Ray Smith; Mr. Doug Lawson; Mr. Billy Hurd; Mr. Charles Miller

Members Absent:

Mr. Billy Joe Miles; Ms. Jane Jones; Mr. Wayne Hunt

Governor's Office of Agricultural Policy Staff Present:

Gene Royalty; David Bratcher; Bill McCloskey; Edith Fultz

Guests:

Kathleen Marshall, Governor's Office for Policy & Management
Biff Baker, Legislative Research Commission

Annette Crawford Walters - announced that the press was notified of this meeting and asked the secretary to call the roll.

Mr. Bratcher - introduced Biff Baker

Mr. Bratcher – pointed out needed corrections in the September 12th meeting minutes. Ms. Walters called for a motion to approve the minutes with corrections. Dr. Benson made a motion to approve the minutes with the needed modifications; Mr. Lawson seconded the motion. The minutes were approved.

Old Business:

Mr. Lawson – gave an update on where we are with Kentucky Bankers Association (KBA) telling us that he has a meeting with them today to discuss a few options and items from an accounting standpoint, to discuss the Farm Service Agency (FSA) program and make sure we are all on board from a lending standpoint. Mr. Bratcher explained that essentially they are going to be discussing the 60/40 program that we have outlined in the guidelines. Mr. Lawson told us that he has already sent them a copy of the revised guidelines.

Mr. Bratcher – presented a copy of the agreement between the Kentucky Agriculture Finance Corporation (KAFC) and FSA. He pointed out Item 4 - A on page one which states that we are authorized in both the direct down payment loan program as well as the joint financing farm ownership program. He explained that we will be more involved in the second of these. Next,

he pointed out Item D on page two and added that we agreed this could be inserted into our MOU.

Mr. Bratcher - told us that we have a prospective borrower in Logan County who we believe will qualify for the beginning farmer program. He added that we have decided to hold up on any promotion of this program until we have done one loan. He explained that through FSA we could be guaranteed up to \$760,000 but we are limited by statute to \$250,000. We will participate at the lower of that level or 40% of the transaction. He told us the lender involved is Citizens Bank in Russellville.

Mr. Lawson - questioned what is going to be the bank's role in preparing the FSA application and commented further about the information that will have to be obtained. Mr. Bratcher explained that we will actually be a lender in this transaction along with the bank. The KAFC loan will be subordinate to the bank's loan. We are providing to the bank the requirements for our loan, which follow the FSA checklist. Mr. Hurd added that the FSA requirements are similar to the banks. There was group discussion.

Mr. Lawson – suggested going to the local FSA office to request their assistance in building the application format. There were comments from group members. Mr. Bratcher told us that he anticipates that Jeff Hall and Butch Dunsmore will send directives or information on this program to the local level. There were further comments and discussion by the group. Mr. Bratcher explained that there are some certifications that the borrower will have to make and offered examples.

Mr. Bratcher - noted that FSA prohibits the use of its guarantees to horseback riding farms and farms that board horses. He added that their focus seems to be on production agriculture instead of agri-tourism. Mr. Lawson stated that this could be to avoid the hobby farm.

Mr. Bratcher – presented a copy of the Draft Agreement that we have still working with the Agriculture Development Board (ADB). He told us that an attorney on the ADB has reviewed the draft and has made suggested changes. We will discuss those changes with her at the October 17th ADB meeting. Once we have executed the agreement ADB will transfer the \$20 million to KAFC. He pointed out one addition to the agreement where at least initially we will staff KAFC with personnel from the Governor's Office of Agricultural Policy (GOAP) or its successor. He explained that GOAP will bill KAFC periodically for reimbursement for employee expenses. While KAFC does have the authority to hire an Executive Director, KAFC is administratively attached to the Kentucky Department of Agriculture. The ADB staff is administratively attached to the Governor's Office. With the changes in both Governor and Commissioner of Agriculture, he explained that it was concluded to postpone decisions beyond staffing by GOAP until after both newly elected officials has assumed office.

Mr. Bratcher - told us that he has made some changes to the guidelines and asked for questions from the group about the body of the agreement.

Ms. Walters - referenced the Program Fund Guidelines explaining that under the Young Farmer Financing Program it indicates the interest rate will equal New York Prime and will be adjusted annually on the anniversary date of the loan and this agreement indicates the loan will be a 15 year fixed rate at New York Prime. Mr. Bratcher concurred and explained we will need to get the ADB to amend this.

Mr. Hurd brought attention to the \$250,000 on page 2 and the recommendation of \$125,000 maximum loan amount for the Young Farmer Program. Mr. Bratcher responded that this has been amended to reflect \$125,000. There was further group discussion with Mr. Bratcher commenting that if we want to sell off those guaranteed portions, they would not be attractive to an investor if we lock the rate. Mr. Lawson made comments and suggested that it should be a decision of the borrower whether they want a fixed or an adjustable rate. There was group discussion and comments. Mr. Bratcher added that we are going to be looking for the KAFC Board members for guidance.

Mr. Hurd – expressed the importance of servicing of the loans and gave examples of all the things required.

Ms. Walters – asked if we are going to allow the option for the borrower to have a fixed interest rate and if we are going to amend the agreement and guidelines to reflect this. Mr. Lawson suggested that we leave market driven wording, with what is in the best interest of the borrower and best opportunity for today's market. Mr. Hurd agreed and added that we don't want to restrict ourselves as to what we want to do two years from now. Ms. Walters suggested that we indicate loan could be a maximum term of 15 years and may be fixed or adjustable rates based on customer demand and current market. Mr. Bratcher offered clarification on the guidelines referencing the loan term of 7 years on equipment and 15 years on real estate. He explained that FSA will allow us to go to 40 years if we have a lender that wants to go 40. There was additional discussion regarding the Young Farmer program.

Mr. Bratcher - summarized the changes to be made to these guidelines will be: interest rate will be based on Wall Street Journal Prime and will be adjusted annually on the anniversary date of the loan. The borrower also will have the option of fixing the rate. The fixed rate will be determined at the time of loan closing. The term of the loan will equal the term of the first mortgage lenders loan, but in no case will it exceed 15 years.

Mr. Bratcher – referred to page one, pointing out the Investment fund for Agriculture, the 5th bullet and noted the inconsistency between the buy-down program and the direct loan program. He explained that we are not going to be selling off the invested portion where we will be selling off the direct loan in the Young Farmer program.

Mr. Lawson - commented on investment funding of processors/manufacturers and expressed he would rather see longer terms, less restrictive and noted the difficulty in bringing these types of companies to Kentucky.

Mr. Bratcher - offered the Green River Cattle Company as an example and explained their interest in our program. He used the example of a company called Four Seasons, which is a company that makes protein blocks. He emphasized that we have two fairly solid applications that may come to the board as early as next month for review. He also mentioned the goat milk project on the West Coast and explained that we do have enough goat milk in the state for this. Mr. Royalty explained that the problem would be transportation. There was further discussion on the Four Seasons project and product.

Mark Straw – mentioned the Investment Fund for Agriculture component and questioned if there would be some package from Economic Development with a cash flow component. Mr. Bratcher gave the example of Cumberland Farm Products Coop's proposed joint venture with a value added processor. That project and other value-added processing projects should be eligible for programs with the Cabinet in those situations where the Cabinet can play a role. A

lot of times the value-added processors don't create the requisite number of jobs which precludes the Cabinet's involvement. When Cabinet programs are applicable, we see KAFC as providing additional incentive to the value-added processors over and above what might be available.

Mr. Royalty – stated that the Economic Development Cabinet, the ADB and KAFC should put together a competitive package that should put us ahead of other states in attracting these processors.

Mark Straw - commented about the duration of the Economic Development Program comparable to the terms of this fund and how that would influence someone underwriting it.

Mr. Bratcher – explained and suggested that we keep in mind that the Investment Fund for Agriculture is very similar to the Link Deposit Program.

Ms. Walters offered comments that the 20-year and 7-year terms on the Investment Fund would not necessarily be a conflict with the 15-year term on the Young Farmer Program. Mr. Lawson concurred.

New Business:

Mr. Bratcher – presented a handout on the KAFC procedures. He introduced Kathleen Marshall from the Governor's Office for Policy and Management (GOPM). He requested comments and advise on these procedures. He feels that the staff should not have authority to make loans without the Board's approval. He added that every transaction for the foreseeable future should come to this board.

He explained that he would like to tell the borrower, if we have the application from them on the last day of the month prior to our meeting we will attempt to put them on the agenda for the next month. He commented on the level of detail of the project and how much we have to do. He explained further and questioned whether the Board members would prefer to have applications in hand prior to the meetings. There was group discussion with consensus from the board members that they would prefer to have them prior to the meetings.

Mr. Lawson suggested that they get summary write-ups on the applications and explained further.

Mr. Bratcher commented that a 2-week turn around time might be too tight. He suggested that we get the applications in for November so we can have a starting point to see how it is going to work. He told us that he would like to see us go public with this before the next session. He added that we will probably ask the next Governor to showcase this. He explained that we intend to develop some forms or adapt forms already out there.

Procedures for Investment Fund for Agriculture

He referenced item # 1 and explained that we can get a quick turn-around if the bank shares information. Ms. Walters questioned if he plans to add a bullet stating analysis provided by the bank. Mr. Bratcher responded, yes. Mr. Hurd suggested bankers send things that they use. Mr. Bratcher explained that in the material we are going to send out the bank is also going to draft the inter-creditor agreement. He explained further and told us that he sees the Investment

Fund for Agriculture being a different kind of credit decision verses the First Time Farmer transaction.

Mr. Hurd asked if all the First Time Farmer loans will be FSA guaranteed. Mr. Bratcher responded, yes. Mr. Hurd said the critical part is not the FSA guarantee, but what you do when you get it. Mr. Lawson stated that it all falls back to your loan officer. Mr. Bratcher suggested that this First Time Farmer program might be where we spend a lot of staff time. There was further group discussion.

Mr. Bratcher - questioned the bankers on what the average real estate loan is. There was group discussion and comments. Two to three hundred thousand was the average amount.

Mr. Bratcher - questioned whether we should charge an application fee. There was group discussion.

Ms. Ross questioned if we plan to hire someone to put the packages together or are we going to do this by contract. Mr. Bratcher responded that Bill McCloskey and he will prepare the first one or two projects together. If the board elects to contract this work, KAFC will be governed by all the Personal Service Contract rules that we have to go through in the state. He explained this process. He also explained there will have to be some credit analysis done and we are going to be looking to the Board members for this.

Mr. Lawson questioned the hiring situation and asked at what point are we going to see our need to organize an office staff for KAFC, especially with the Administration change. Mr. Bratcher responded that he believes it will be after the Administration change

Mr. Lawson stated that once we have executed the agreement between KAFC and the ADB and have transferred the \$20 million to KAFC's accounts, we then have earning power and thus the capacity to hire. He explained that once we have a staff, deals in the process and things organized we will look more prepared to the new Administration than if we let it lay idle. He stated that we have a short time to accomplish this. Mr. Bratcher responded if we get the contract executed next week we still need to do the amendment with Farmers Bank. He added that if we are looking at a loan application in November we will have the money in the bank to fund that application as quickly as the borrower is ready to close. November 1st would be an optimum date to be thinking of money actually in the account at Farmers Bank.

Mr. Bratcher – explained that we will need to develop a cash flow to advise OFM how we see the \$20 million being accessed. This will affect the manner in which OFM invests the funds in the account at Farmers Bank. We want to maximize the earnings as much as possible while they are not being used by us. Mr. Lawson - commented that he wants to see us stand on our own and voiced concerns that in the administration change we could lose some of the capacities that we have today. Mr. Bratcher responded that this is a valid concern and shared with the group the plans for the next meeting of the ADB where organizational options might be discussed. There was group discussion.

Mr. Bratcher - told us that the only way the KAFC can cease to exist is if the General Assembly enacts legislation to abolish it. He explained further and expressed the importance of having projects out there we can present to the General Assembly. There was group discussion.

Biff Baker - addressed the group telling us that there hasn't been any serious talk about taking any of the Agricultural Development Funds. He added that they had been directed by the

Oversight Committee to take a look at how to make ADF more accessible to the communities most affected by the loss of tobacco. He commented further that some of the hard-pressed areas have not been applying for the funds. One of the specific things the Sub-Committee was asked to do was look at, for example, the Economic Development Cabinet and some of their programs and how their programs may be tweaked to where those funds and tax incentives could be applied to agribusiness specifically. Mr. Bratcher - added that he, Mr. Royalty and the ADB feels strongly about spending time on value added processors.

Procedures for Agricultural Endeavors Lease Program

Mr. Bratcher – explained that this is probably going to be the least used component. It will have to be a deal by deal basis. He explained that he can see us being asked to serve as issuer for industrial revenue bonds, which we have authority to do through Statute. We are not liable for anything including the cost of attorney's fees since we are just a pass through for bond proceeds. We may choose as owner of the real estate to participate in a buy-down of a loan through the Investment Fund for Agriculture.

Young Farmer Direct Loan Program

Mr. Bratcher - explained that we are looking for someone who has farming experience, but doesn't own much land. He called attention to the checklist part of the application. # 69, page 5 of 5. He pointed out that we anticipate seeing these items on every transaction.

Dr. Benson – asked if we have put in place the things that insure our programs are accessible. He commented further that we as a Board need to make sure funds are accessible to all groups so we don't have to worry about accusations of exclusion of anyone. Mr. Bratcher responded that this is a valid concern and explained that we want to make sure we promote this program equally to all parties. He questioned the need to promote this program to all parties without being overrun with applicants.

Dr. Benson raised questions about the requirement of being a US citizen. Mr. Bratcher responded that this is right out of the FSA requirements. We would argue that they have to be Kentucky residents, being a US citizen would be secondary. There was group comments and discussion.

Mr. Bratcher - explained that the procedures and policies will evolve.

Next Meeting Date:

The next meeting is scheduled for 9:30 am on November 14, 2003

Adjourn:

The meeting adjourned at 12:05pm

Approved_____

Presiding Officer: _____

Secretary: _____